Market Recap 05-03-2017

United States

Despite experiencing a downward correction towards the closing of the week, US equity indices reached new record levels.

The Dow Jones Industrial Average reached a new record level by breaching the 21.000 mark. On Wednesday, it peaked at 21.115, to close the week at 21.005, its first loss in a while. After Yellen's slightly dovish Friday announcement, the DJIA changed only slightly towards the positive by 0.05%. Similarly, the S&P500 reached a new high on Wednesday at 2.383, also dropping slightly to end the week at 2.367. Over the whole week it added another 0.7% to its already high level. The same development can be seen in the NASDAQ, which ended at 5.870 on Friday, with a plus of 0.16%.

The IPO of Snap, parent to the popular Snapchat instant messaging service, was the most discussed event in financial markets last week. It ended up exceeding most expectations. At an initial pricing of $17, the stock surged 44% on its first day and another 11% on its second day to end the week at above $27. The company is therefore currently valued at more than $31 billion, despite investors' concerns about losses and decreasing market share.

Last week's US market developments were highly influenced by multiple Fed Executives' hints towards an earlier rate hike. All of them echoed the same stance: "We are reaching our mandates. Inflation is at 1.7%, unemployment at a long term low of 4.8%, thus a rate hike in the near term future is likely." As a consequence, markets formed expectations of more than three rate hikes for 2017. Janet Yellen, Chair of the FOMC, neutralized this hawkish stance during an address on Friday, as she stressed that the Fed is still in line with its mandate and "has not fallen behind the curve". Nevertheless, economic data and supportive statements of many Fed Executives raise the expectation of a rate hike in March up to 94% from an initial 40% at the end of last week.

Another speech this week, which was expected to impact markets strongly, was President Trump's address to Congress on Tuesday. However, the speech failed to deliver more concrete details on the corporate tax reform and trade consequences for the US, thus markets did not react significantly.

Despite the increased likelihood of a rate hike in March, the US Dollar depreciated slightly against the Euro and appreciated against the British Pound and Japanese Yen. At the same time yields on 10 year treasuries rose further to 2.48% at the end of the week.

The most relevant event for the next week will be the publishing of an employment report on March 10, which is expected to induce the Fed to assert a rate hike on its meeting, March 14.

Eurozone

The week just ended was the best one for European equities since December. The Stoxx 600 advanced 1.41% over the last 5 days. The Italian Index FTSE MIB (+5.74%) and the French CAC 40 (+3.09%) were among the biggest gainers.

French elections were the most important market mover of the Eurozone. For the first time since the beginning of the presidential campaign, Macron overtook Marine Le Pen also for the first-turn of the elections in some polls which came out this week. Fillon's announcement that he's going to run in spite of its formal probe has not shaken the markets, which are re-gaining confidence. The equity markets advanced, while the yield on 10 year government bonds increased 3bp to 0.95%.

The rise in the Italian index was prompted also by the success of the massive raise of capital of UniCredit bank, the largest lender of the region by assets. The €13 billion offer was already subscribed for 99.8%, and the remaining offer rights were sold on the markets in less than 2 hours. UniCredit shares rose 15.13% since last Friday's close. Major players of the zone like Mediobanca (+8.32%) and Intesa Sanpaolo (+12.5%) enjoyed the boost of confidence as well.

Furthermore, this week Athens requested additional information on measures needed to receive the next tranche of bailout. Although Greece doesn't urgently need bailout cash before its next big debt repayments in July, another breakdown in talks would delay the country's inclusion in the ECB's bond-buying program. The negotiations are still stalling. The yield on 10 year bonds decreased by 17 basis points to 7.09%.

The yield on 10 year German Treasuries increased by 17 basis points to 0.36% this week. The EUR slightly appreciated against the USD (0.59%) and the British Pound (1.93%), with the EURGBP to 0.8640.

UK

The FTSE 100 closed the week up by 1.62% at 7374.26 points, above the record close of January 13. The main British index has followed a lateral trend for almost the entire week, except for Wednesday the 1st, when it jumped to the new record highs amid the drop of the British pound. Indeed, the stronger expectations for an interest rate hike by the Fed in two weeks have weighted on the GBPUSD exchange rate, which dropped below 1.23 by Friday evening. As a consequence of this, British blue-chips were boosted by expectations of stronger earnings from overseas operations, with Burberry Group PLC, British American Tobacco and Imperial Brands PLC leading the rise of the index. On the bond market, 10-year gilt yields rose by few notches to 1.185% on Friday.

While data released on Wednesday showed that the British housing sector is still holding in terms of prices YoY and mortgage approvals, data released on Friday showed a service sector in much worse shape than expected (PMI services down to the five-month low of 53.3), thus raising fears about the resilience of the economic growth over the next quarters. According to different analysts, indicators are currently turning bearish for the British pound and in general for the sustainability of the economic honey-moon that followed the EU referendum, given the slowing consumer spending, risks of inflation picking up and business margins erosion.

For next week, the focus will be on the announcement of the Spring Budget 2017 on March the 8th. In spite of the warnings of the Office for Budget Responsibility about risks of an explosive increase in borrowing needs of the government immediately after the result of the EU referendum, the Chancellor of the Exchequer Philip Hammond is expected to announce a drop of government borrowing, given the unexpected positive performance of the British economy over the last few months. In addition to that, on Friday the 10th, data on the balance of trade and on industrial and manufacturing production will be released, thus giving further insights about the effects that the pound's weakness is having on the British economy.

Rest of the World

China's PMI data went up to 51.6 in February, compared to 51.3 in January. Non-manufacturing PMI was at 54.2 versus 54.6 in January as well as private manufacturing PMI from Caixin Media and Markit Economics climbed to 51.7. This data came before this weekend's National People's Congress, which will set its growth target for the year. Chinese Premier Li Keqiang will most likely increase tolerance for a slower yet hefty economic expansion; estimates for growth domestic product are at "about 6.5 percent," versus a range of 6.5 to 7 percent in 2016.

Monetary expansion will also decrease as policy makers promised to manage risk from the huge amount of debt caused by earlier stimulus. Estimates for M2 money supply expansion will be 11.5 percent from 13 percent in 2016.

Since U.S. crude inventories are jeopardizing OPEC's efforts to decrease global supply, oil closed at the lowest level in more than three weeks and futures declined 2.3 percent in New York. However, Saudi Arabia continues to lead the cut in production and help OPEC reach its final goal: output fell to 32.17 million barrels a day in February, a 65,000 barrel-a-day drop from January, the first month of the agreement.

South Korea's Kospi fell the most since November; this might be due to the decrease of Chinese tourists. The selloff was in hotels, cosmetic makers and other tourism-related companies that made the country's benchmark the worst performer among Asian equity markets. The slide was after a news agency in China, Yonhap, ordered travel agents to decrease sales of holiday packages to South Korea. This might be because of South Korean intentions to situate an American missile defence system, which China is against as it says that this would create distress on the military balance on the Korean Peninsula. While South Korea has not given any sign that it would modify its intentions, there can be economic risks in the short term.

Bank of Japan's preferred measure of consumer prices increased for the first time since December 2015, which signals some hope that inflation will start gearing up towards Governor Haruhiko Kuroda's 2 percent target this year. Consumer prices excluding fresh food increased 0.1 percent in January from a year earlier, against a forecast of 0 percent; excluding fresh food as well as energy, prices rose 0.2 percent, same amount as forecast. Finally, the jobless rate edged down to 3.0 percent, same amount as forecast, the lowest level since the mid-1990s.

The MSCI AC Asia Pacific Index dropped by 0.77 percent, while Japan's Topix Index dropped by 0.42 percent.

Tags: US, Eurozone, UK, DJA, S&P500, NASDAQ, interest rate hike, treasuries, EU, PMI, inflation, spring budget, FTSE 100, GDP growth, IPO, IPO Snap, Snapchat, Fed, Janet Yellen, Trump, US Dollar, Japanese Yen, British Pound, Euro, Stoxx 600, FTSE MIB, CAC 40, Marine Le Pen, Fillon, French elections, UniCredit, Mediobanca, Intesa Sanpaolo, Greece, China, OPEC, crude oil, South Korea, Bank of Japan, MSCI Asia Pacific, Topix, FX